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Cost savings exercise puts new MAS on firm footing

KUALA LUMPUR: An initial cost savings of at least RM180 million from catering contracts plus a few hundred million more from lesser payroll expenses due to a leaner workforce for the next three years will put the new Malaysia Airlines (MAS) on a firm footing as it climbs its way to profitability in 2018 as targeted, an academician said on Thursday.

Dr Ahmad Rizal Mazlan, the Director of the Kuala Lumpur campus of Universiti Utara Malaysia (UUM), said the national carrier had for too long been plagued by bloated operational figures of up to 20 per cent above its competitors, very high payroll costs as well as producing in-house items at uncompetitive cost levels.

"Unlike the old MAS, the new MAS will be leaner with only a 14,000 workforce. With the cost savings from catering contracts and reduced payroll costs as 6,000 were let go, MAS is set to close the gap of the 20 per cent higher cost level," he told Bernama.

Renegotiating its contract with main in-flight catering supplier, Brahim, was a good first step and should be similarly applied to the other supply contracts MAS had entered into, he went on to say.

"This cost saving figure is expected to further increase with more contracts expected to be renegotiated and could potentially be as high as RM2 billion over the next 3 years," he added.

Offering his analysis, Dr Rizal said based on MAS' operating expenses of RM3.55 billion in the third quarter of 2014, a saving of 20 per cent to match MAS' competitors cost will translate to a saving of at least RM700 million per annum, amounting to RM2 billion in three years' time as Malaysia Airlines ascend to profitability in 2018.

"With the playing field getting intensely competitive, cost cutting initiatives is only expected. MAS is not alone. Recently Thai Airways had to let go 1,401 staff and suspended loss-making routes under its two-year restructuring plan."

Dr Rizal said the first phase of MAS' restructuring plan had set its priorities right by focusing on "stop bleeding" measures in critical areas such as capacity right-sizing, eliminating sources of losses, down-sizing the workforce and contract renegotiations in order to start on a clean slate by September when the new entity, Malaysia Airlines Bhd (MAB) takes off.

"This restructuring that saw the emergence of a new entity has rectified some of the structural changes that will put it on a stronger footing, financially and cost-wise. MAB now needs to operate as a business entity.

"The aviation industry is getting very competitive; MAB will not only be competing with other full services airlines but also the low cost ones that have been on the rise the past 10 years. We now have more than three airlines flying the same routes, thus the challenge now is to get passengers to choose our national airline," he added.

Dr Rizal said it was mind-boggling that MAS had as many as 20,000 suppliers when as admitted by its new chief executive officer Christoph Mueller, ideally it should only have between 2,000 and 2,500 and this proved that the airline had been operating on a very fragmented procurement system which made cost savings impossible.

Politician Datuk Ahmad Fauzi Zahari agreed with Dr Rizal's views, saying that if MAS could save RM60 million a year just by renegotiating with Brahim's, significant across the board cost savings could also be achieved elsewhere.

The Member of Parliament for Setiawangsa said with MAS suffering huge losses, in the interest of both parties, suppliers should voluntarily review terms deemed unfavourable to the airline which were tantamount to uncontrolled wastages.

"Only when MAS cuts its suppliers to around 2,500 can it achieves economies of scale otherwise its operating costs will always go out of control. This is not only in the interest of MAS but also the suppliers because if MAS fails, they also cannot supply," said Ahmad Fauzi.

Khazanah Nasional Bhd (Khazanah), which owns MAS, is injecting RM6 billion under the restructuring plan to return the national carrier to profitability from 2018, out of which RM1.4 billion was spent on taking over the stakes held by minority shareholders.

Another RM1.5 billion went into paying compensations and benefits to some 6,000 employees laid off and the 14,000 others who were retained.

Ahmad Fauzi said with the balance of RM3 billion, MAB has to work within that to be profitable by 2018 and with the cost cutting measures the airline is able to achieve milestone set.

He cited the analogy of a car driver when explaining the situation MAS is in now. In a car, there are only two mirrors for viewing purposes—the windscreen and rear mirror.

"The rear mirror is small because we use it to look at what is the past but the important thing is the windscreen to guide us where we want to go but now and then we need to look at the rear-mirror to tell us what have we done wrong and not to repeat the mistakes made.

"So MAS is in the same situation where because the windscreen is bigger so we should focus on it only. Don't look back, we don't have time to look back now, if we keep looking back, we'll crash," he said. –Bernama